

A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Safford Unified School District No. 1

Year Ended June 30, 2006



Debra K. Davenport
Auditor General

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Accounting Services Division Staff

Laura Miller, Manager and Contact Person
lmiller@azauditor.gov

Sara Thomas

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

December 26, 2007

Governing Board
Safford Unified School District No. 1
734 11th Street
Safford, AZ 85546

Members of the Board:

We have reviewed the District's audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2006, prepared by Heinfeld, Meech & Co., P.C. to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Laura Miller, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

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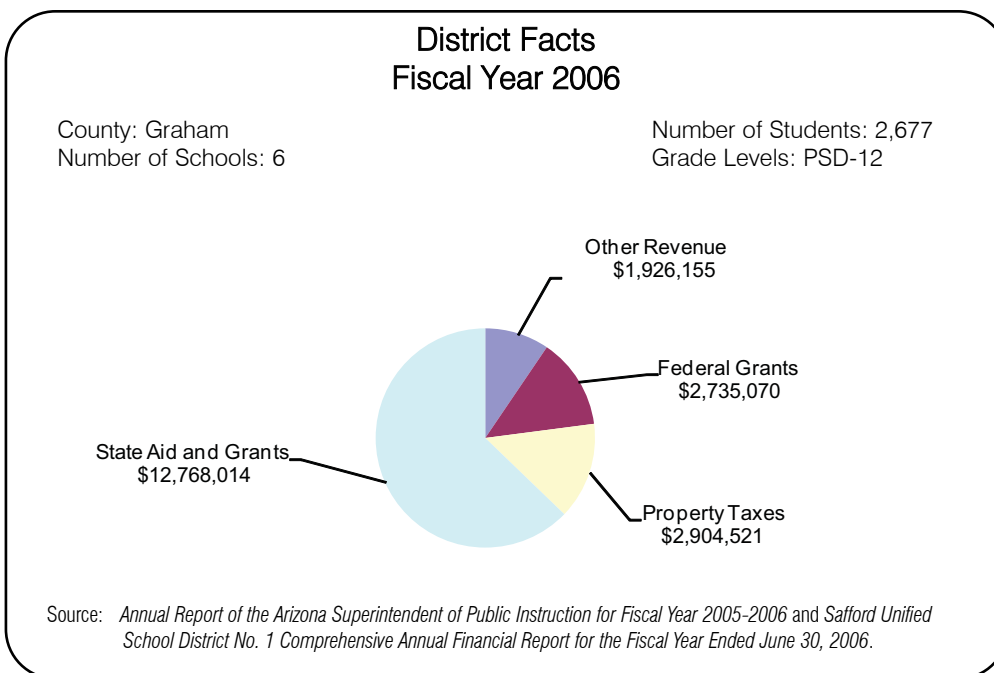
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INTRODUCTION

Safford Unified School District No. 1 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$20.3 million it received in fiscal year (FY) 2006 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2006, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



The District should strengthen controls over auxiliary operations and student activities monies

Poor cash controls left district and student monies susceptible to theft, loss, or misuse.

Auxiliary operations monies are district monies raised in connection with bookstore and athletic activities. The District holds student activities monies raised through students' efforts for safekeeping. The Governing Board is responsible for establishing oversight for these monies to ensure that proper procedures are followed for collecting and spending them. However, proper oversight was not established. The District did not always prepare auxiliary operations cash collection reports or retain cash receipt forms and other supporting documentation. Additionally, when cash collection reports were prepared, the totals did not always reconcile to the actual deposit. Also, the District did not deposit auxiliary operations monies in a timely manner, at times leaving monies in school and district safes for over a month. Consequently, the District was unable to locate approximately \$535 of auxiliary operations monies because of the lack of controls. In addition, the District did not always use bank accounts as authorized by statute, as community schools monies were improperly deposited into the Auxiliary Operations Fund bank account. Additionally, the District did not use ticket logs to account for tickets issued at athletic events and did not separate the duties of selling tickets and admitting ticket holders to events.

Further, student activities checking accounts were not always properly reconciled as the check register balances did not agree to the reconciled bank statements at June 30, 2006. Finally, the District did not always maintain evidence of student approval for student activities club disbursements and had numerous inactive student club accounts at fiscal year-end.

Recommendations:

To strengthen controls over auxiliary operations and student monies, the District should:

- Ensure prenumbered and numerically controlled cash receipt forms or tickets, inventory counts, or cash register tapes are used to support cash collected.
- Prepare and retain cash collection reports and daily sales reports, as applicable, to support the cash collected and reconcile cash collected to sales. Promptly investigate and resolve any differences.
- Prepare deposit slips and compare the deposit amount to the activity or cash collection reports and investigate and resolve any differences.

A sample cash collection report for auxiliary operations cash receipts is on USFR page X-G-22.

- Compare validated deposit slips to supporting documentation to ensure all cash was deposited, and promptly investigate any differences noted.
- Deposit cash receipts intact daily, if significant, or at least weekly. In addition, when cash is received, a locked filing cabinet, cash register, or safe should be used to safeguard cash until deposited, and access to the cash should be restricted prior to deposit.
- Deposit cash receipts in the appropriate account. The Auxiliary Operations Fund should include only monies raised in connection with school bookstores and athletic activities.
- Prepare auxiliary operations ticket logs to record beginning and ending ticket numbers, date, school, and total number of tickets issued.
- Ensure adequate separation of duties are maintained and that the same person is not responsible for recording beginning and ending ticket numbers, selling tickets, and admitting ticket holders to events.
- Prepare complete and accurate monthly bank reconciliations for all bank accounts in a timely manner to verify the accuracy of its bank and checkbook balances, and ensure that bank statements and other reconciliation documentation are retained.
- Document student approval for disbursements from the Student Activities Fund in the club's minutes. Retain documentation to support the disbursements, including club meeting minutes, requisitions, purchase orders, invoices, and receipts.
- Close inactive student club accounts and transfer any remaining balances to the student council.

The District should ensure its accounting records are accurate and complete

The District's Governing Board depends on accurate information so it can fulfill its oversight responsibility. The District should also report complete and accurate information to the public and agencies from which it receives funding. However, the District did not fully accomplish this objective. Specifically, the District did not reconcile its records of cash balances with the County School Superintendent (CSS) monthly and did not properly reconcile its records of revenues, expenditures, and cash balances at fiscal year-end. Also, the District did not maintain its accounting records in

The District did not ensure the accuracy of its records as it did not reconcile them to the County School Superintendent's records.

accordance with the USFR Chart of Accounts as it misclassified several revenues and recorded numerous revenues in inappropriate funds. In addition, the District did not include capital asset amounts on its annual financial report (AFR), and expenditures reported on the AFR did not always agree with the District's accounting records. Finally, the total approved daily route miles reported on the FY 2006 budget worksheets did not agree to ADE's Transportation Route Report TRAN 55-1.

Recommendations

To help ensure the accuracy of its accounting records, the District should:

- Reconcile its records of cash balances by fund to the CSS' records at least monthly. Compare total revenues and expenditures by fund, program, function, and object code, as applicable, from its accounting records to the CSS' records at least at fiscal year-end. Investigate all reconciling items and make all necessary adjustments.
- Classify all financial transactions in accordance with the USFR Chart of Accounts.
- Update accounting records and the capital assets list before preparing the AFR, and include all required capital asset information on the AFR.
- Assign a second employee to verify that the amounts reported on the AFR agree with the District's accounting records before it is submitted to ADE.
- Obtain approved daily route miles from the prior year's ADE Transportation Route Report TRAN 55-1 to complete the expenditure budget worksheets.

USFR §III provides guidance for classifying financial transactions.

The District should strengthen controls over competitive purchasing and expenditures

The District spends public monies to purchase goods and services, so it is essential that the District follow the School District Procurement Rules and USFR guidelines designed to help ensure that the District receives the best possible value for the public monies it spends, and that its expenditures are appropriate, approved, and adequately supported. However, the District did not always follow such procedures. Specifically, the District did not retain a copy of the bid file for construction services, and did not always obtain oral and written price quotations for

The District did not always follow competitive purchasing requirements, and therefore, could not ensure it received the best value for the public monies it spent.

purchases that required them. In addition, the District did not maintain the Governing Board's written determination that the price submitted was fair and reasonable when only one responsive bid was received.

Further, the District did not always prepare purchase orders before purchasing goods and services, and inappropriately recorded an expenditure of \$57,476 in FY 2006 for services received during FY 2005. Also, the Governing Board did not establish and maintain formal, written policies governing the use of credit cards, and the employees making credit card purchases were not always identified on the receipt. Finally, the District reported deficit fund balances in the Food Services, Unemployment Insurance, and Grants and Gifts to Teachers Funds.

Recommendations

The following procedures can help the District strengthen controls over competitive purchasing and expenditures:

- Follow the School District Procurement Rules for purchases of construction, materials, or services that individually or in the aggregate exceed \$33,689 (the current threshold), and retain all documents necessary to demonstrate compliance with the procurement rules.
- When a contract is awarded based on the only responsive bid received, maintain the Governing Board's written determination that the price submitted was fair and reasonable and that either other prospective bidders had reasonable opportunity to respond or there was not adequate time for resolicitation.
- Obtain oral price quotations from three or more vendors for purchases estimated to cost between \$5,000 and \$15,000, and written price quotations from three or more vendors for purchases estimated to cost between \$15,000 and \$33,689. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.
- Maintain separate accounting records of each fund simultaneously for the prior and current fiscal years during the 60-day encumbrance period following June 30 and record revenues and expenditures of the prior and current fiscal years in the appropriate set of records.
- Establish formal written policies governing the use of credit cards by authorized employees. The policies should specify purposes for which the cards may be used and dollar limits for charges. Supporting documentation should be retained to adequately support all credit card expenditures.
- Require employees using district credit cards to promptly submit receipts to the business office. Employees making credit card purchases should clearly

School District Procurement Rules provide the requirements for competitive sealed bids for goods and services in excess of \$33,689.

USFR guidelines require:

- Oral price quotations for purchases between \$5,000 and \$15,000.
- Written price quotations for purchases between \$15,000 and \$33,689.

indicate their name and the specific district purposes for the expenditure on the receipt.

- Prepare and approve purchase orders prior to ordering goods or services to ensure that expenditures are properly approved and that adequate cash or budget capacity is available prior to committing district resources.

The District should report accurate student attendance information

The State of Arizona provides funding to school districts based on membership and absences. In turn, the State requires school districts to maintain accurate membership and attendance records to help ensure that districts receive the appropriate amount of state aid and local property taxes. However, the District did not maintain accurate membership and attendance information. Specifically, entry dates

The District may not have received the appropriate amount of funding since the District did not report membership and absences correctly.

were not always included on entry forms, and when included, they did not always agree to the entry dates in the District's computerized attendance system. In addition, the District did not always properly calculate partial-day attendance at the elementary, junior high, and high schools tested. Further, the District did not always properly prorate membership for high school students enrolled in the equivalent of less than four subjects. Finally, the District did not always calculate student absences properly for high school students enrolled in a JTED program.

Recommendations

To help ensure that the District receives the correct amount of state and local funding, the District should:

- Retain accurate documentation to support membership and absence data reported to ADE, including accurately completed entry forms.
- Require all entry forms to be dated and have a second employee verify that the entry dates on the forms agree with the dates in the District's computerized attendance system.
- Record kindergarten students, with total instruction time between 346 and 692 hours per year, as absent if in attendance for less than three-quarters of the day. If the instructional time for the year is 692 hours or more, students not in attendance at least one-half of the day should be counted as being absent.

- Record attendance for students in first through eighth grades, if attendance is based on half days, as follows:
 - Attendance of at least three-quarters of the instructional time scheduled for the day should be counted as a full day of attendance.
 - Attendance for at least one-half, but less than three-quarters, of the instructional time scheduled for the day should be counted as a half-day of attendance.
- Record attendance for high school students in accordance with the chart provided in ADE's *Instructions for Required Reports*.
- Prorate each part-time high school students' membership in proportion with the number of courses and instruction hours in which the student is enrolled.
- Ensure that the District calculates absences for students enrolled in a JTED program based on the number of district classes that the student was enrolled in and attended (excluding JTED classes).

The District's controls over cash receipts and bank accounts should be improved

Because of the relatively high risk associated with cash transactions, the District should maintain effective internal controls to safeguard cash, ensure that it is promptly and accurately recorded and deposited, and ensure that bank accounts are used as authorized by statute. However, the District did not have strong controls over its cash receipts and bank accounts. Specifically, the District disbursed refunds and made a check payable to cash from the Food Service Fund clearing account. In addition, the District remitted monies in the Food Service Fund clearing account to the County Treasurer only once during FY 2006. Also, the District did not always maintain supporting documentation for Maintenance & Operation (M&O) Fund revolving account disbursements. Finally, the District did not close the petty cash account to the M&O Fund revolving bank account at fiscal year-end.

The District did not maintain documentation to support M&O Fund revolving account disbursements.

Recommendations

To improve controls over cash receipts and bank accounts, the District should remit monies deposited in the Food Service Fund clearing account to the County Treasurer at least monthly. No other disbursements should be made from this account, and

checks should not be written payable to cash or bearer. If the District needs to make a refund for prepaid meals, such payments should be made from the District's Food Service Fund revolving account or, if necessary, from daily food service cash receipts. In addition, the District should maintain supporting documentation, including approved check requests, receipts, and vendor invoices for all payments from the M&O Fund revolving account. Further, the District should close each petty cash account to the M&O Fund revolving account by June 30 in order for expenditures to be reported in the proper fiscal year.